

MEMORANDUM FOR: Financial Management Centers
Contracting Officer Technical Representatives (COTRs)

FROM: R. J. Dominic
Director, Finance Officer/Comptroller

SUBJECT: Accounts Payable Accruals
Action Memorandum

In the FY 1998 financial audit report of the National Oceanic and Atmospheric Administration (NOAA), KPMG Peat Marwick noted as a reportable condition that NOAA overstated some accounts payable and did not accrue others which should have been accrued by fiscal year end. This was also a reportable condition in FY 1997 and, although NOAA developed and implemented procedures to address the issue, similar problems occurred in FY 1998. The auditors recommended in both FY 1997 and 1998 that NOAA management review current policies and procedures for recording accounts payable and communicate the importance of these procedures to appropriate parties.

Accounts payable are the **total amount owed** as of the fiscal year end (September 30) for goods, services, and other property purchased and received during the fiscal year. In many instances, NOAA may not have received or paid invoices by year end for all goods and services received. In these instances, NOAA must still record accounts payable in the accounting records for all amounts owed for goods and services received during the fiscal year. Reviewing the following documents can be helpful for determining if an account payable should be recorded:

1. Receiving reports for goods and services received, but not paid billed or paid,
2. travel and other vouchers received/prepared but not yet paid, and
3. progress reports for contracts, construction projects or grants for work performed, but not billed or paid.

In the absence of invoices or other available data, reasonable estimates should be used to record the cost of goods or services received before fiscal year end. The following methods may be helpful for estimating the amount of an account payable.

1. If an obligation is recorded to cover the expenditures during the fiscal year, the obligation amount may be the best estimate of the liability.

2. The prior- year actual or a trend of several previous years may be used to estimate a current-year accrual.
3. Monthly performance reports from grantees should be used to estimate accruals for grants that have not been advanced.
4. When reports from contractors or grantees are not available or are not feasible, estimates of actual performance progress and incurred costs should be obtained from project managers, COTRs, or other operating officials who are familiar with progress under the contract or grant. Accounts payable should be recorded by an estimate of the work completed under the contract or agreement as of September 30.

In order to attain NOAA's goal of an unqualified audit opinion on its financial statements, accounts payable must be recorded properly in the financial system. All activities in NOAA must work together to meet this goal. Please ensure that receiving reports, certified invoices, and other payment documents are sent to the appropriate finance office in a timely manner. Please review all major contracts to ensure accounts payable have been established for work or progress made up to and including September 30. Further, we request that you review FIMA reports to verify that transactions are recorded properly.

In preparation for the end of FY 1999, the Finance Office will be offering a two hour seminar on accruals. The seminar is scheduled for September 9, 1999, from 9:30 - 11:30 a.m. at SSMC3, room 4527. This conference room can hold up to 150 people. Video conferences for the National Weather Service and the National Environmental Satellite, Data and Information Service have also been arranged, and those Line Offices will be coordinating with their respective employees. Other video conferences and individual office training may be arranged with the Finance Office if September 9 is not a good date. Please prepare a coordinated response to Chuck Kilgore by September 3, 1999, indicating how many people plan to attend the September 9th seminar from your office. For additional information pertaining to the accrual seminar on September 9, please call Chuck Kilgore at (301) 413-8795, ext. 131.

If you have any further questions on accruals, please call Sandi Walters on (301) 427-3090, ext. 101.

cc: Management and Budget Chiefs
 ASC Finance Division Chiefs
 KPMG Peat Marwick
 BXA - Barry Keckler
 OFA - Paul Roberts
 OFA3 - Jolene Laurie Sullens
 OFA312 - Lan Bui